

Message Text

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ACTION EB-03

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 7392

INFO AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY ROME

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 01044

LIMDIS

PASS TREASURY FOR UNDER SECRETARY BENNETT, ASSISTANT
SECRETARY COOPER AND L. WIDMAN

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMAN ATTITUDES TOWARD SOLIDARITY FUND

1. SUMMARY. THE GERMANS ARE PLEASED WITH THE OUTCOME
OF THE WASHINGTON IMF MEETINGS AND FORESEE NO SERIOUS
DIFFICULTIES IN REACHING OECD COUNCIL AGREEMENT ON
THE SOLIDARITY FUND BY THE END OF FEBRUARY. THE GERMAN
GOVERNMENT IS STILL CONSIDERING WHETHER THE GERMAN
PARTICIPATION TO THE FUND SHOULD BE BY WAY OF A
DIRECT CONTRIBUTION OR THROUGH GUARANTEES. END
SUMMARY.

2. WE UNDERSTAND FROM CHANCELLOR'S OFFICE ASSISTANT
SECRETARY HISS THAT CHANCELLOR SCHMIDT IS QUITE PLEASED
WITH THE OUTCOME OF THE IMF MEETINGS IN WASHINGTON.
GERMAN SATISFACTION WITH THE COMPROMISE PACKAGE AND
CLEARER POLICY GUIDANCE FROM THE TOP NOW IS ALSO
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REFLECTED IN OUR FINANCE MINISTRY CONTACTS AND

PARTICULARLY IN THEIR ATTITUDE TOWARD THE SOLIDARITY FUND PROPOSAL WHICH HAS BECOME MUCH MORE CLEARLY POSITIVE AND CONSTRUCTIVE. GERMAN OFFICIALS FORESEE NO SERIOUS DIFFICULTIES IN REACHING OECD COUNCIL AGREEMENT ON THE FUND BY THE END OF FEBRUARY. ASSISTANT SECRETARY WEBER TELLS US THAT HE HOPES THE WORKING PARTY CAN STRENGTHEN THE TIEIN OF COOPERATION IN THE ENERGY FIELD AS ONE OF THE PREREQUISITES FOR RECOURSE TO THE SOLIDARITY FUND WHILE, OF COURSE, NOT WEAKENING THE EQUALLY IMPORTANT EMPHASIS ON SOUND STABILIZATION POLICIES.

3. THE MAIN QUESTION WHICH HAS NOT AS YET BEEN SETTLED WITHIN THE GERMAN GOVERNMENT IS WHETHER THE GERMAN PARTICIPATION IN THE SOLIDARITY FUND SHOULD TAKE THE FORM OF A DIRECT CONTRIBUTION OR GUARANTEES. THE BUDGET SECTION OF THE FINANCE MINISTRY, WHILE OTHERWISE FAVORING A DIRECT CONTRIBUTION AS THE CHEAPER WAY, HAS TAKEN THE POSITION THAT SUCH A CONTRIBUTION IS NOT POSSIBLE BECAUSE IT WOULD PUSH FEDERAL BORROWING BEYOND THE CONSTITUTIONAL LIMITATIONS LAID DOWN IN ARTICLE 115 OF THE BASIC LAW WHICH GENERALLY LIMITS THE AMOUNT OF FEDERAL BORROWING DURING ANY BUDGET YEAR TO MAGNITUDE OF INVESTMENT EXPENDITURES IN THE SAME FEDERAL BUDGET. ASSISTANT SECRETARY WEBER AND HIS STAFF ACCEPT THIS CONSTITUTIONAL INTERPRETATION AND THEREFORE HAVE PROCEEDED ON THE ASSUMPTION THAT THE GERMAN CONTRIBUTION WILL HAVE TO TAKE THE FORM OF GUARANTEES. STATE SECRETARY POEHL, HOWEVER, CONTINUES TO BELIEVE THAT A DIRECT CONTRIBUTION IS PREFERABLE AND IS SEARCHING FOR A WAY TO HAVE IT COME FROM THE

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 01044

LIMDIS

BUNDESBANK RATHER THAN THE FEDERAL BUDGET.

4. COMMENT: ALMOST ALL OF OUR OTHER CONTACTS BELIEVE THAT THE BUNDESBANK WILL STRONGLY RESIST HAVING THE CONTRIBUTION COME OUT OF ITS FOREIGN EXCHANGE RESERVES AND THAT EVEN IF PRESIDENT KLASSEN COULD BE PERSUADED IT IS DOUBTFUL WHETHER HE COULD PERSUADE THE CENTRAL BANK COUNCIL. IN THAT CASE IT IS POSSIBLE THAT THE QUESTION OF A CONTRIBUTION OUT OF THE FEDERAL BUDGET MAY BE RE-EXAMINED. THE PROHIBITION UNDER ARTICLE 115, IN OUR VIEW, IS NOT QUITE AS IRONCLAD AS THE FINANCE MINISTRY STAFF MAINTAINS. FOR ONE THING, ARTICLE 115 PERMITS EXCEPTIONS TO THE BORROWING LIMITATION WHEN CYCLICAL POLICY SO DEMANDS (WHICH CERTAINLY WOULD APPLY FOR 1975). FOR ANOTHER, THE GRANTING OF LOANS BY THE FEDERATION HAS IN THE PAST BEEN CLASSIFIED AS PART OF INVESTMENT EXPENDITURES IN FEDERAL BUDGET ACCOUNTING. A CONTRIBUTION TO THE SOLIDARITY FUND THUS ALSO COULD POSSIBLY BE SO CLASSIFIED AND THUS AUTOMATICALLY RAISE THE FEDERAL DEBT LIMIT. BUT SINCE PRIOR TO THE 1975 BUDGET, THE FEDERATION HAS NEVER COME EVEN CLOSE TO THE
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CONSTITUTIONAL DEBT LIMIT, THE MEANING AND POSSIBLE INTERPRETATIONS OF ARTICLE 115 OF THE BASIC LAW HAS NEVER BEEN TESTED AND FOR POLITICAL REASONS THE GOVERNMENT MAY WELL PREFER TO POSTPONE A TEST EVEN IF ITS CASE IS RELATIVELY STRONG.
HILLENBRAND

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